Arbor Memorial Services Inc.

ANNUAL REPORT 2000

COMPANY PROFILE ARBOR MEMORIAL SERVICES INC. IS AN ONTARIO CORPORATION WHICH, THROUGH WHOLLY-OWNED SUBSIDIARIES, IS ENGAGED IN PROVIDING INTERMENT RIGHTS, CREMATIONS, FUNERALS AND ASSOCIATED MERCHANDISE AND SERVICES TO CUSTOMERS ACROSS CANADA. IT OWNS 40 CEMETERIES, 27 CREMATORIA AND 95 FUNERAL HOMES (INCLUDING 5 PARTIALLY-OWNED FUNERAL HOMES) IN COMMUNITIES IN EIGHT PROVINCES OF CANADA. THE COMPANY'S CEMETERIES AND FUNERAL HOMES HAVE BEEN DEVELOPED TO PROVIDE SERVICES TO MANY ETHNIC AND RELIGIOUS GROUPS IN CANADA. THE CEMETERY PROPERTIES RANGE IN SIZE FROM APPROXIMATELY 25 TO 180 ACRES AND ARE STAFFED BY PERMANENT MAINTENANCE, ADMINISTRATIVE, AND SALES PERSONNEL.

COVER: A detail from a rubbing of an Early Empire I Western Han Tomb tile (3rd century B.C.) depicting a foot-archer. This triangular tile, ht. 2 feet, 9 inches is one of two tiles which formed an archway of a tomb chamber entrance.

Rubbing and text courtesy of the Royal Ontario Museum, ROM©

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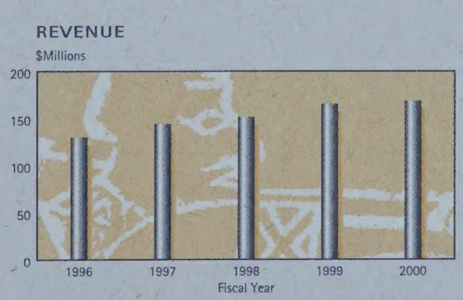
Company Highlights

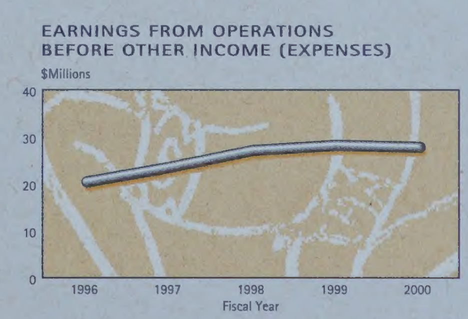
YEARS ENDED OCTOBER 31 *($000)*	2000	1999	1998
	(52 weeks)	*(53 weeks)*	*(52 weeks)*
OPERATIONS			
Revenue	168,608	165,192	151,569
Earnings from operations before other income (expenses)	28,119	28,530	27,423
Net earnings	13,411(1)	3,808(2)	12,570
Cash flow from operating activities	15,777	13,141	14,883
PER SHARE DATA			
Earnings *($ per share)*	1.27(1)	0.36(2)	1.19
Cash flow from operating activities *($ per share)*	1.49	1.24	1.41
Weighted average number of shares outstanding *(000)*	10,594	10,589	10,585
MAJOR RESOURCES			
Cemeteries	40	44	44
Crematoria	27	26	26
Funeral homes(3)	95	96	94
Care funds *($000)*	99,451	92,332	85,443
Total assets *($000)*	651,606	637,861	602,166

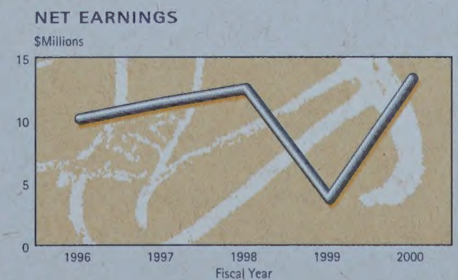
(1) Net earnings in 2000, excluding the after-tax effect of other income (expenses) and the impact of the change in the tax rate under the new accounting standard for income taxes, were $11.0 million, or $1.04 earnings per share.

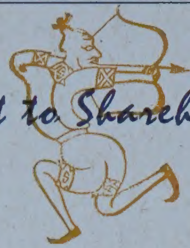
(2) Net earnings in 1999, excluding the after-tax effect of other income (expenses) were $11.5 million, or $1.08 earnings per share.

(3) Arbor wholly owns 90 of the 95 funeral homes and has interests ranging from 40% to 48% in the remainder.









Report to Shareholders

A YEAR AGO, WE REPORTED THAT AFTER FIVE CONSECUTIVE YEARS OF SIGNIFICANT EARNINGS GROWTH, ARBOR MEMORIAL SERVICES INC. EXPERIENCED A SET BACK IN 1999. SPECIFICALLY, EARNINGS PER SHARE FOR THE YEAR WERE $0.36 COMPARED TO $1.19 IN 1998. WHILE THE DECLINE WAS DUE PRIMARILY TO A NUMBER OF UNUSUAL ITEMS, IMPROVED EARNINGS PERFORMANCE WAS CLEARLY OUR NUMBER ONE OBJECTIVE FOR FISCAL 2000. WE ARE PLEASED TO REPORT THAT THIS OBJECTIVE WAS ACHIEVED DESPITE INCREASED LEVELS IN CREMATION AND A DIFFICULT COMPETITIVE ENVIRONMENT.

FINANCIAL PERFORMANCE

- Record revenue of $168.6 million
- Record funeral sales of $74.9 million
- Record cemetery sales of $80.1 million
- Record investment income of $13.0 million

INVESTMENT IN THE FUTURE

In a world that tends to focus on short term results, we strive to manage with the primary emphasis on the long term. In 2000, the Company undertook a number of major initiatives to build long term performance and enhance shareholder value.

- Opening of the Company's second combination funeral home and cemetery sales office at Glen Lawn Memorial Gardens in Winnipeg in February 2000. The Company's first combination funeral home and cemetery sales office, which opened at Glenwood Memorial Gardens in Edmonton in June 1999, has been embraced by the public and is an outstanding success.
- Completion of construction and opening of a funeral home on Sheppard Avenue in Toronto, which market studies indicated was a high potential location. Excluding cemetery locations, this was Arbor's first experience with constructing a funeral home and building the business rather than acquiring an established business. To date, performance of this new location has been well above expectations.
- Pre-need funeral sales of $31.8 million, up 5% from 1999. Since these sales are not included in the Company's reported revenue until these funerals are performed, pre-need sales have no immediate impact, but build future market share and financial performance. The total undelivered pre-need funeral sales accumulated at the end of 2000 were the equivalent of 2.7 years of at-need sales.
- Major renovation of the Nisbett Funeral Home in Peterborough, Ontario.
- Completion of a 394 crypt expansion at Capital Memorial Gardens in Ottawa, Ontario
- Completion of a 208 crypt expansion at Sunset Memorial Gardens in Thunder Bay, Ontario.
- Completion of a major expansion to the cremation garden at Dartmouth Memorial Gardens in Dartmouth, Nova Scotia.
- Signing of a joint venture agreement with the Roman Catholic Church in Kingston, Ontario. The Church will utilize Arbor's Kingston cemetery, Glenhaven Memorial Gardens, to supplement the Church's own cemetery which is close to capacity.

ACQUISITION ACTIVITY

After several years of significant acquisition activity, the Company did not complete any new acquisitions in 2000. This reflects the priority the Company is giving to new funeral home construction, especially on cemetery property. In addition, during 2000, there was a lack of attractive, strategically located businesses that met our return on investment criteria.

OTHER INITIATIVES

- In 2000, the Company continued its program of divesting under-performing assets. Specifically, the sales of four cemeteries, three funeral homes and a parcel of land were completed.
- The Company and the Ontario Association of Cemeteries have been working with the Ontario Government's Red Tape Commission to change the regulations under the Funeral Directors Establishment Act and the Cemeteries Act to allow funeral homes to be located on cemetery property. Currently, Ontario and Prince Edward Island are the only provinces that prohibit funeral homes to be located on cemetery property.
- The lease buyout was exercised on the Tompkins Funeral Home, Township Chapel, in Kingston, Ontario.

OUTLOOK

Going forward our objective is clear and unchanging, to provide superior funeral and cemetery services that exceed customer expectations. Arbor is uniquely positioned to respond to the changing needs of the Canadian public. It is the only company with national presence in both the funeral and cemetery sectors of the industry. Furthermore, Arbor's success over the years has been importantly due to the talent, training, hard work, and dedication of its employees.

While some of the participants in our industry have experienced financial difficulty recently, Arbor continues to be prudently managed, is in sound financial condition, and focuses on strategic investments to build long-term shareholder value.

Arbor has a proud history, and a promising future.

On behalf of the Board,

Richard D. Innes
President & Chief Executive Officer
December 19, 2000

Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF 2000 AND 1999 CONSOLIDATED OPERATIONS

The financial year of the Company ends on the Sunday that falls on or immediately preceding October 31st. The 2000 fiscal year of the Company was composed of a 52 week period compared to a 53 week period in 1999.

Consolidated revenue was a record $168.6 million. This represented an increase of $3.4 million or 2.1% over 1999 revenue of $165.2 million. The following table provides a breakdown of revenue by source:

	2000		1999	
	($000)	*%*	*($000)*	*%*
Cemeteries				
At-need	27,376	16.2	27,372	16.6
Pre-need	52,685	31.3	52,232	31.6
	80,061	47.5	79,604	48.2
Funeral homes	74,932	44.4	73,499	44.5
Corporate	604	0.4	576	0.3
Total sales	155,597	92.3	153,679	93.0
Investment income	13,011	7.7	11,513	7.0
	168,608	100.0	165,192	100.0

Consolidated sales were $155.6 million, an increase of $1.9 million or 1.2% over 1999 sales of $153.7 million. The Company has achieved an average yearly sales increase of 7.7% over the last five years. Cemetery and funeral sales were $80.0 and $74.9 million respectively, compared to 1999 sales of $79.6 and $73.5 million.

In 2000, the sales of four cemeteries, three funeral homes and a parcel of land for proceeds of $2.2 million (1999 – one cemetery and three funeral homes) were completed. If we exclude these operations from 2000 and 1999, consolidated sales would have increased by $4.0 million or 2.7% over 1999.

Investment income increased $1.5 million compared with 1999. This was the result of an increase in pre-need cemetery and care fund income due to an increase in the average funds on deposit and an increase in pre-need funeral fees.

Operating expenses increased in 2000 by $3.2 million or 2.6% and were 82.9% of sales compared to 81.8% in 1999, an increase of 1.1 percentage points. The increase as a percentage of sales was largely due to an increase in the cemetery cost of sales of 1.7 percentage points. The cemetery cost of sales increase was primarily due to a change in the mix of sales both in terms of products sold and the amount of sales at individual branches. The average operating expense percentage over the last five years was 82.0% of sales.

General and administrative expenses increased by $0.6 million or 5.3 % over 1999. As a percentage of revenue, total expenses were 6.8% compared to 6.6% in 1999, an increase of 0.2 of a percentage point. Over the last five years, general and administrative expenses as a percentage of revenue have decreased by 0.4 of a percentage point.

Earnings from operations before other income (expenses) decreased by $0.4 million or 1.4% from 1999. This was largely a result of the relatively small increase in sales of 1.2%, while fixed expenses such as salaries and benefits increased in line with inflation.

The Company recorded a number of unusual expenses in 1999. These expenses totaled $7.9 million before the effect of income taxes. Of the $7.9 million, $1.6 million was for losses recorded on the sale of fixed assets, $4.5 million was a provision for asset impairment and $1.7 million was for interest and penalties on a partial tax settlement. The net effect of these items was to reduce net earnings by $7.6 million or $0.72 per share.

The Company continued its strategy of divesting under-performing properties in 2000 and in that regard sold three funeral homes, four cemeteries and a parcel of land. The $4.5 million provision for asset impairment in the 1999 results included $3.6 million for the expected loss on sale of these assets.

In 1999, the Company recorded a provision of $1.7 million for interest and penalties relating to a partial settlement of a reassessment, by various income tax authorities, of reserves claimed in previous years for amounts received for the future delivery of certain goods. During the year, the Company received Notices of Reassessment in respect of the resolution of certain prior years' income tax matters and accordingly, recorded a credit of $0.5 million in current year's net earnings. The Company placed on deposit the funds necessary to reduce the ultimate exposure with respect to non-deductible interest and penalties, and the balance of such, for the resolved matters, was $2.1 million at October 31, 2000.

The gain on sale of fixed assets in 2000 of under $0.2 million was due to asset sales in the normal course of business.

Interest expense increased by $0.3 million over 1999. This was mostly due to an increase of $6.1 million or 6.4% in the average long-term debt outstanding in the year as a result of 1999's acquisitions, net of debt reduction from asset sales. The average rate of interest on long-term debt for the year was 6.2% compared to 6.3% in 1999.

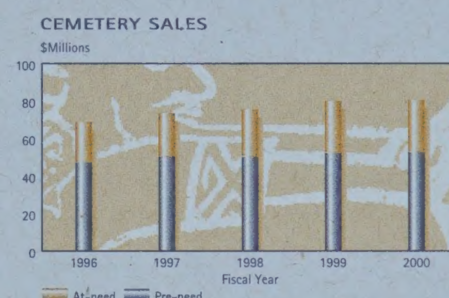
The Company's effective tax rate decreased from 74.1% in 1999 to 40.4% in 2000, however, the effective tax rate for 1999 excluding the unusual items referred to above, was 49.4%. The decrease in the effective tax rate from 49.4% to 40.4% was mainly due to the adoption of the new accounting standard for income taxes, whereby the impact of a change in tax rates on the future income tax asset and liability balances is included in income in the period of the change. During the Company's fiscal year it was considered that the proposed federal rate decrease of 1% and Ontario's rate decrease of 1.5% were substantively enacted and, as a result, a reduction of $2.2 million, or $0.21 earnings per share, was recorded in the current year income tax expense.

Net earnings for the year increased $9.6 million compared to 1999. This translated to an increase of $0.91 per share, from $0.36 in 1999 to $1.27 in 2000. Excluding the other income (expenses) and the impact of adopting for 2000 the new accounting standard for income taxes, net earnings would have decreased $0.5 million or 4.6% over 1999 and earnings per share would have decreased $0.04 per share.

CEMETERIES

Cemetery sales in 2000 increased by $0.5 million or 0.6% over 1999, from $79.6 million to $80.1 million. Sales from on-going branches increased by $1.7 million or 2.2%.

Gross pre-need sales increased by $0.6 million or 1.1% while at-need sales were the same as last year. From a product sales perspective, the majority of the pre-need sales increase was attributable to traditional burial lots and ancillary merchandise and services. The cemetery division has achieved an average yearly sales increase of 4.7% over the last five years.



Although pre-need sales increased, the cancellation expense decreased from $4.05 million in 1999 to $4.02 million in 2000, reflecting a slight improvement in the cancellation rate. From 1996 to 2000, the rate has decreased by 1.9 percentage points, from 8.5% to 6.6%.

The following table provides a percentage breakdown of the cemetery products and services sold in 2000 and 1999:

PERCENTAGE OF SALES

	2000	1999
	%	%
Burial spaces	39.6	39.6
Memorials	19.3	19.9
Services	17.8	17.8
Bases/monuments	12.8	12.1
Vaults and liners	5.0	5.3
Urns	5.5	5.3
	100.0	100.0

Investment income increased by $0.8 million or 8.3%. The main contributors to the increase were pre-need cemetery income and care fund income. Pre-need cemetery income

increased by $0.4 million or 10.1% and care fund income increased by $0.4 million or 6.9% over 1999. This was due to an increase in the pre-need cemetery funds of $7.7 million or 10.1% and an increase in the care funds of $7.1 million or 7.7%. The rates of return on the pre-need and cemetery funds were consistent with 1999. In addition, the Company changed the investment mix resulting in increased dividend income, which has had a positive impact on the effective tax rate.

On a year over year basis, the gross margin on pre-need and at-need sales decreased by 1.2 and 1.5 percentage points, respectively. The reasons for the decrease in the gross margin percentages include the following:

- Over the last few years, the Company has experienced a shift in the sales of upright monuments and bronze memorials, whereby upright monument sales have been increasing, and sales of bronze memorials decreasing. While upright monuments generally contribute more in dollars to the Company's gross margin, their gross margin percentage is lower.
- The cost of traditional burial lots at certain cemeteries has increased due to significant development costs incurred over the last few years.
- Traditional burial lot sales in Ontario increased at a higher rate compared to other provinces. Ontario has the highest care funding rate of all the provinces.
- The Company sold more non-standard burial vaults, which generally have a lower gross margin percentage than standard burial vaults, but higher gross margin dollars.
- Decline in the average crypt selling price reflecting the fact that higher priced and generally more desirable spaces are sold earlier in the life cycle of mausolea and columbaria.
- Increase in the cost of services which is predominantly driven by labour costs.

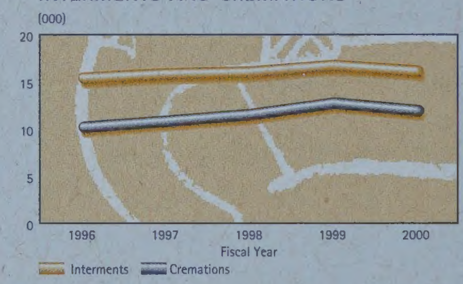
During the year the cemetery division introduced a plan whereby sales commissions are reduced in relation to discounts from the approved price listing. It is expected that this will improve the cemetery gross margin percentage and will not have a detrimental impact on sales.

Selling and care and maintenance expenses increased by $0.2 million or 1.0% over 1999 as a result of the increased sales and level of activity at the properties. As a percentage of sales, however, these expenses were relatively consistent year over year. Over the last five years, selling and care and maintenance expenses expressed as a percentage of sales have decreased by 4.1 percentage points, from 35.8% to 31.7%.

Earnings from cemetery operations before other income (expenses) decreased by $0.5 million or 3.0%. The decrease was attributable to the lower gross margin expressed as a percentage of sales, despite the small increase in sales.

In 2000, the number of interments performed by the Company decreased by 3.6% to 16,306 and the number of cremations decreased by 6.4% to 12,117. The number of interments performed at on-going branches decreased by 0.7%. Up until this year, as shown below, the Company has seen an increasing trend in cemetery volume for a number of years. The decline in cremation volume this year is primarily the result of new competition, both cemetery and funeral. Many of the funeral homes that we compete with have established relationships with competing crematoria and accordingly refer business to locations other than Arbor's cemeteries.

INTERMENTS AND CREMATIONS



FUNERAL HOMES

Funeral home sales increased by $1.4 million or 1.9%, from $73.5 million in 1999 to $74.9 million in 2000, largely a result of an increase in the average sale per funeral service at existing locations. Acquired and constructed operations, which have not operated for a full year in either fiscal 2000 or 1999, contributed $2.6 million to the increase while existing operations decreased by $0.4 million. Operations that were sold in the year accounted for a decrease of $0.8 million. In 2000, the Company constructed an on-site funeral home at Glen Lawn Memorial Gardens in Winnipeg, Manitoba and a stand-alone funeral home in Toronto, Ontario. In 1999, the Company acquired four funeral homes, and constructed an on-site funeral home at Glenwood Memorial Gardens in Edmonton, Alberta. The Company sold three funeral homes in each of 1999 and 2000.

The following table shows the number of wholly owned funeral homes operated by the Company for 2000 and 1999:

NUMBER OF FUNERAL HOMES

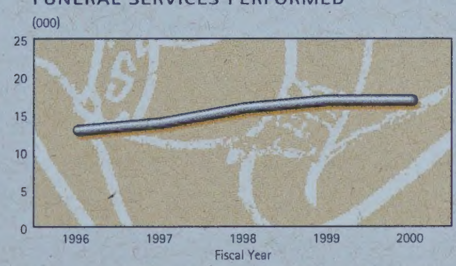
	2000	1999
Funeral homes, beginning of year	91	89
Acquired and constructed	2	5
Dispositions	(3)*	(3)
Funeral homes, end of year	90	91

**Provision was made in 1999 for the expected loss on sale.*

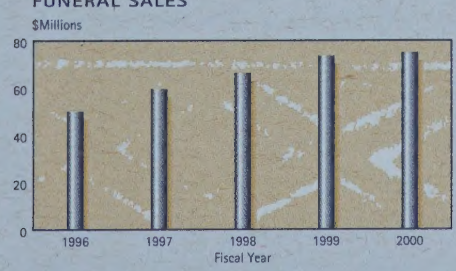
The number of funeral services performed at existing operations decreased by 3.4% (0.6% excluding the 53rd week in 1999 and services performed relating to the Swissair 111 plane crash off of Peggy's Cove, Nova Scotia). Acquired and constructed homes, net of sold operations, contributed and additional 413 services.

The average sale per funeral service performed at existing locations increased by $128 or 3.0%. This increase was mostly a result of increasing the number of receptions held at the funeral locations and increasing the sales of ancillary products.

FUNERAL SERVICES PERFORMED



FUNERAL SALES



Investment income increased by $0.6 million due to an increase in the fees recognized from the deposit of pre-need funeral funds under the trust program and group annuity program. In July of 1999 the Company negotiated a more favourable arrangement under the trust program and has had the benefit of a full year in 2000. Late in 2000, the Company changed suppliers under the group annuity program and expects improved fees from pre-need funeral sales in 2001 and thereafter.

The Company's focus on expanding pre-need funeral sales caused deferred revenue from pre-need funeral sales to increase by $5.0 million or 2.6% over 1999, for a total of $200.9 million. The total undelivered pre-need funeral sales accumulated at the end of 2000 translated to 2.7 years of at-need sales, which was the same number as at the end of fiscal 1999. Total pre-need sales completed in 2000 were $31.8 million compared to $30.3 million in 1999, an increase of $1.5 million or 5.0%.

Earnings from funeral operations before other income (expenses) increased by $0.6 million or 2.8%, from $21.0 million in 1999 to $21.6 million in 2000, due to increased sales and investment income but partially offset by increases in operating expenses.

Cost of sales as a percentage of sales decreased by 0.2 of a percentage point in 2000 over 1999 due to a shift in the mix of products sold.

Other operating expenses increased by $1.4 million or 3.2%. The increase was largely due to increases in operational expenses in the normal course but also to costs of operating the newly constructed funeral homes.

CORPORATE

Corporate revenue, which is rental income from leasing a portion of the Company's head office building for office or retail space, interest on the Company's bank accounts and interest on mortgages receivable was $0.8 million, up 18.0% over 1999. The main reasons for the increase were higher rental rates at the head office building, and increased interest income due to an improved cash position from reduced capital spending, proceeds from disposals and recovery of a portion of funds on deposit from the partial income tax settlement reached in 1999.

Corporate expenses increased by $0.6 million, from $10.9 million in 1999 to $11.5 million in 2000. As a percentage of total Company revenue, these expenses increased from 6.6% in 1999 to 6.8% in 2000. The increase was significantly attributable to increased legal fees and costs to comply with

new provincial reporting regulations, which are not expected to recur. Over the last five years, corporate expenses as a percentage of revenue have decreased by 0.4 percentage points.

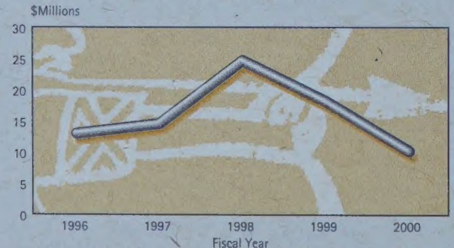
CAPITAL EXPENDITURES AND ACQUISITIONS

During the year, the Company incurred capital expenditures of $9.4 million compared to $17.2 million in 1999, excluding funeral home acquisitions. Details of the capital expenditures by segment follow:

($ Millions)	2000	1999
Cemetery	2.2	6.8
Funeral	6.4	9.6
Corporate	0.8	0.8
	9.4	17.2

Funeral expenditures in 2000 included $0.9 million for the development of combination funeral homes and cemetery sales offices and funeral reception centres at a number of cemeteries including Glen Lawn Memorial Gardens in Winnipeg, Manitoba, Hillcrest Memorial Gardens in Saskatoon, Saskatchewan, Glen Oaks Memorial Gardens in Oakville, Ontario and Victoria Memorial Gardens in Windsor, Ontario. The Glen Lawn Funeral Home opened in February 2000. Funeral homes and reception centres at other cemeteries are expected to be completed in 2001 or 2002. Funeral expenditures also included $1.8 million for the development of Highland Funeral Home in Toronto, Ontario, which opened in April 2000, $1.7 million to purchase the land and building of an existing funeral home and $0.4 million for additions and renovations at existing locations.

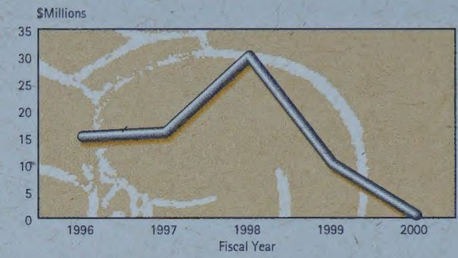
CAPITAL EXPENDITURES (1)



(1) Excluding funeral home acquisitions

In 2000, the Company did not acquire any funeral homes. In 1999, the Company acquired four funeral homes for $9.5 million. The Company now owns or has interests in 95 funeral homes.

INVESTMENT IN FUNERAL HOME ACQUISITIONS



Capital expenditures in 2000 were mostly financed by cash generated from operating activities. The Company expects to spend $15.3 million on capital projects in 2001, including:

- $2.7 million to develop two reception centres;
- $2.0 million for a combination funeral home and cemetery sales office at an existing cemetery;
- $1.6 million to replace an existing funeral home;
- $1.5 million for computer development; and
- $0.7 million to develop a new cemetery in Ontario.

New garden development and the replenishment of the crypt and niche inventory is essential to attaining cemetery sales targets. To this end, $2.7 million was spent in 2000 on crypts and niches (1999 - $4.9 million), including $0.9 million for the mausoleum expansion at Capital Memorial Gardens in Ottawa, Ontario. The Company expects to spend $4.9 million on additional crypt and niche inventory in 2001, including $3.6 million to construct a mausoleum extension at Highland Memory Gardens in Toronto, Ontario and a further $0.8 million on garden development.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities in 2000 was $15.8 million compared to $13.1 million in 1999, an increase of $2.6 million or 20.0%. The increase was largely due to a $4.0 million decrease in income taxes receivable resulting from a partial settlement of reassessments by various income tax authorities in 1999. Changes to certain operating balance sheet items such as pre-need funds and merchandise, accounts payable and deferred revenue, also had an impact. Management believes that cash flow from operating activities is sufficient to sustain ongoing operations as well as the routine maintenance and orderly replacement of the Company's fixed assets.

In 1999, the Company was able to negotiate a partial settlement of reassessments from Revenue Canada and various provincial taxation authorities relating to the 1987 to 1995 taxation years. However, the issue respecting reserves claimed for the sale of interment rights remains unresolved. In this regard, $6.3 million remains on deposit with the various income taxation authorities. The Company believes that it has substantial arguments to support its position, however, the deposit was made to limit the Company's exposure to non-deductible interest expense and penalties should it be unsuccessful. The Company is proceeding to have this issue adjudicated in the courts.

In 2000, the Company issued 6,000 Class B Non-Voting Shares for cash proceeds of $45,000 pursuant to exercised stock options. Proceeds from the issuance of these shares were used for general corporate purposes. No stock options were granted and 1,200 options were cancelled. In 1999, there were no stock options granted or exercised, and 4,500 options were cancelled.

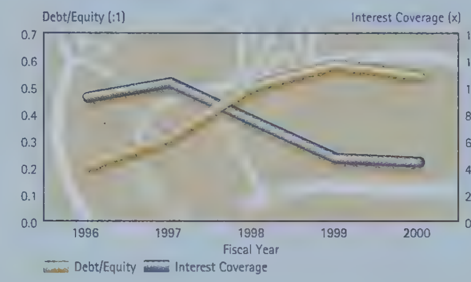
Long-term debt at the end of 2000 was $99.2 million as compared with $103.3 million at the end of 1999. Of the $4.1 million decrease, term loans were reduced by $2.2 million with proceeds from the disposition of assets, and other debt was reduced by $1.9 million. The Company has satisfied the debt covenants as defined in the provisions of its bank loan agreements.

In 1999, the Company increased its committed term facilities from $100 million to $125 million and its operating lines of credit from $12 million to $14 million under substantially the same terms and conditions. It is expected that the increased term facilities and cash flow from operating activities will be sufficient to fund the Company's planned capital expenditures, additions to crypt and niche inventory and the development of cemetery gardens.

The Company has entered into two interest rate swaps to reduce its exposure to interest rate fluctuations. At the end of 2000, the notional amount of the swaps was $38.2 million compared to $43.2 million at the end of 1999. The result of the swaps was that interest rates for a significant portion of the Company's term loans were fixed at rates of 6.0% and 6.7%. The swaps also caused the Company's interest expense to be higher in 2000 by $0.2 million (1999 - $0.4 million) than would otherwise have been the case if the Company had maintained all floating rate debt. At October 31, 2000, the total unrealized gain with respect to the swaps was $0.3 million compared to a gain of $0.4 million at the end of 1999. It is management's intention to hold the swaps until their maturity in 2008.

The Company's debt to equity and interest coverage ratios relative to earnings from operations before other income (expenses) for the last five years are summarized below:

DEBT/EQUITY AND INTEREST COVERAGE RATIOS



In 2000, instalment accounts receivable increased by $3.6 million over 1999, due to the increase in pre-need cemetery and funeral sales. Approximately 52.2% of these accounts receivable relate to amounts to be placed in trust and sales tax, with the Company retaining the remainder. This percentage excludes amounts receivable in respect of merchandise to be purchased and stored in the future.

Accounts receivable arising from at-need funeral transactions were paid on average within 29 days for both fiscal 1999 and 2000.

Pre-need funds and merchandise, together with that portion of instalment accounts receivable due to trust funds set aside under statutory requirements, increased by $17.7 million or 5.9% over 1999 to $315.1 million in 2000. This amount exceeds the provision for future delivery plus anticipated costs of completing the obligations included in deferred revenue by approximately $77.8 million.

PROSPECTS

Arbor is uniquely positioned with a national presence in both the funeral and cemetery sectors of our industry. With this important competitive advantage, its established base of pre-arranged services at its cemeteries and funeral

homes and demographic trends indicating a long-term increase in demand for its services, the Company considers that it is well positioned for future sales growth. The Company intends to continue construction of new cemeteries/funeral homes and to expand existing locations where warranted. The establishment of funeral homes and reception centres at cemetery sites will be a priority.

The Company and the Ontario Association of Cemeteries have been working with the Ontario Government's Red Tape Commission to change the regulations under the Funeral Directors and Establishment Act and the Cemeteries Act to allow funeral homes to locate on cemetery property. Currently, Ontario and Prince Edward Island are the only provinces that do not allow funeral homes on cemetery property. If the Government changes the regulations, the Company will further enhance its ability to serve its customers. Nineteen of the company's 40 cemeteries are located in Ontario.

When considering capital expenditure decisions, the Company calculates the net present value of future cash flows and will only allocate funds to a project if the net present value exceeds its cost of capital. Within this context, the Company assesses the benefits to be gained by clustering with other Company funeral homes, synergies with nearby Company cemeteries and/or funeral homes and the development of new markets.

In 2000, the Company determined that its current cemetery operating system was becoming incompatible with the increasingly faster hardware used to operate the system. Discussions with various information technology consultants revealed that at the current rate of hardware improvement, the Company's cemetery operating system would become obsolete some time in 2002. As a result, the Company hired consultants to assist in developing an information technology architecture across all of the Company's systems that will be a source of competitive advantage well into the future. The new architecture will be designed in terms of tasks and processes as opposed to organizational structure. The estimated total cost to implement the new architecture ranges up to $3.0 million.

In 1999, the Trustee Act in Ontario was amended to permit greater latitude in the investment of pre-need cemetery funds and care funds. As a result, the Company shifted some of its holdings in government bonds to corporate bonds and stocks in order to improve its return on investment and to realize the income tax benefits of dividend income versus other types of investment income.

In 1999, the Government of Saskatchewan passed new cemetery and funeral legislation that to date has not been proclaimed. The impact of the new legislation on the Company cannot be determined until the Regulations are finalized. Also in 1999, the Company accepted the interpretation that cremations should be considered a funeral service and therefore funded at 100% instead of 50%. This change was retroactive to 1995. The Company has calculated and remitted the required additional funding for 1995 to 1999, in the amount of $0.4 million, and is funding at the 100% rate for current sales.

The Governments of Ontario and Quebec finalized new cremation emission standards in 1999. The legislation in Ontario requires the Company to purchase more expensive cremation equipment for future installations or future retrofits to current equipment. The change to the legislation in Quebec has had the effect of increasing its emission standards to the highest level, both nationally and internationally. The legislation is effective for existing and future installations. The Company is in the process of retrofitting and/or replacing its existing equipment in Quebec to meet the compliance requirements. The estimated cost is not expected to exceed $0.3 million.

Environment Canada released new Canada wide standards in 2000 for allowable limits of air emissions. It is unknown at this time how these standards will affect the provincial legislation.

In August 2000, Service Corporation International (Canada) Limited ("SCI Canada"), commenced an application in the Superior Court of Justice seeking an order to wind-up the Company, divide its assets among its two principal shareholders, and cause the purchase of the shares of the remaining shareholders for fair value.

The Company opposed this application. In December 2000, the Company's legal counsel received formal notice that SCI Canada had wholly withdrawn its application.

Management's Responsibility for the Consolidated Financial Statements

The consolidated financial statements, including the notes thereto, and other financial information contained in the annual report are the responsibility of the management of Arbor Memorial Services Inc. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgements where appropriate.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee of the Board, which is comprised of non-management directors, meets with management and the auditors to satisfy itself that these responsibilities are properly discharged and to review the consolidated financial statements and the report of the auditors. It reports its findings to the Board of Directors, which approves the consolidated financial statements.

Deloitte & Touche LLP, the independent auditors appointed by the shareholders of the Company, have audited the Company's consolidated financial statements in accordance with Canadian generally accepted auditing standards. The shareholders' auditors have full and unrestricted access to the Audit Committee.

Richard D. Innes
President and Chief Executive Officer

Brian D. Snowdon
Vice-President and Chief Financial Officer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Arbor Memorial Services Inc. as at October 31, 2000 and 1999 and the consolidated statements of earnings and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP
Chartered Accountants

Toronto, Ontario
December 7, 2000

Consolidated Statements of Earnings and Retained Earnings

YEARS ENDED OCTOBER 31 ($000)	2000	1999
	(52 weeks)	(53 weeks)
REVENUE		
Sales	155,597	153,679
Investment income (note 3)	13,011	11,513
	168,608	165,192
EXPENSES		
Operating	128,987	125,743
General and administrative	11,502	10,919
	140,489	136,662
EARNINGS FROM OPERATIONS BEFORE OTHER INCOME (EXPENSES)	28,119	28,530
OTHER INCOME (EXPENSES)		
Gain (loss) on sale of fixed assets (note 16)	158	(1,612)
Provision for asset impairment (note 16)	-	(4,543)
Interest and penalties on partial settlement of prior years' income taxes (note 11)	480	(1,700)
	638	(7,855)
EARNINGS FROM OPERATIONS	28,757	20,675
Interest expense	(6,256)	(5,987)
Earnings before income taxes	22,501	14,688
Income taxes (notes 2 and 11)	9,090	10,880
NET EARNINGS	13,411	3,808
Retained earnings, beginning of year as previously reported	102,210	99,144
Adoption of new accounting standard (notes 2 and 11)	(6,151)	-
Retained earnings, beginning of year as restated	96,059	99,144
Dividends	(742)	(742)
RETAINED EARNINGS, END OF YEAR	108,728	102,210
EARNINGS PER SHARE (NOTE 13)	$ 1.27	$ 0.36

Consolidated Balance Sheets

AS AT OCTOBER 31 ($000)	2000	1999
ASSETS		
Current assets		
Cash	5,563	2,298
Accounts receivable	14,665	13,897
Income taxes receivable (note 11)	2,134	6,100
Merchandise inventories	9,322	9,686
Instalment accounts receivable, current portion (note 4)	35,701	33,869
	67,385	65,850
Income taxes on deposit (note 11)	6,288	6,749
Instalment accounts receivable (note 4)	29,742	27,996
Crypts and niches	25,546	27,782
Cemetery land		
- fully or partially developed	11,164	13,378
- held for future development	22,934	23,263
Pre-need funds and merchandise (note 5)	291,847	277,968
Fixed assets (note 7)	139,608	138,187
Goodwill - net of accumulated amortization of $9,926 (1999 -$8,700)	48,967	50,669
Other assets	8,125	6,019
	651,606	637,861
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	22,011	24,163
Income taxes payable	688	2,508
Amounts payable in respect of care funds (note 6)	6,764	6,706
Long-term debt, current portion (note 9)	1,424	2,428
	30,887	35,805
Deferred revenue	200,907	195,880
Provision for future delivery (note 8)	88,270	86,880
Long-term debt (note 9)	97,748	100,894
Future/deferred income taxes (note 11)	52,567	43,738
	470,379	463,197
SHAREHOLDERS' EQUITY		
Share capital (note 10)	72,499	72,454
Retained earnings (note 11)	108,728	102,210
	181,227	174,664
	651,606	637,861

On behalf of the Board,

Daniel J Scanlan, *Director*

Richard D. Innes, *Director*

Consolidated Statements of Cash Flows

YEARS ENDED OCTOBER 31 ($000)	2000	1999
	(52 weeks)	*(53 weeks)*
CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Net earnings	13,411	3,808
Add (deduct) items not affecting cash from operating activities:		
Depreciation and amortization	8,156	7,694
(Gain) loss on sale of fixed assets	(158)	1,612
Provision for asset impairment	-	4,543
Future/deferred income taxes	2,678	(3,179)
Net change in other operating balance sheet items (note 14)	(8,310)	(1,337)
	15,777	13,141
INVESTING ACTIVITIES		
Purchases of fixed assets	(9,357)	(17,238)
Acquisitions of funeral homes (note 16)	-	(8,371)
Additions to cemetery land	(612)	(1,202)
Proceeds on sale of fixed assets	2,304	1,340
	(7,665)	(25,471)
FINANCING ACTIVITIES		
Net (decrease) increase in long-term debt	(4,150)	15,246
Dividends	(742)	(742)
Issue of shares (note 10)	45	-
	(4,847)	14,504
INCREASE IN CASH	3,265	2,174
Cash, beginning of year	2,298	124
CASH, END OF YEAR	5,563	2,298
SUPPLEMENTARY INFORMATION		
Income taxes paid	4,544	6,968
Interest paid	6,518	6,022

Notes to Consolidated Financial Statements

YEARS ENDED OCTOBER 31, 2000 AND 1999

1. NATURE OF OPERATIONS

Arbor Memorial Services Inc. (the Company) provides products and services in the death care industry in Canada. Through its subsidiaries, the Company offers a complete line of cemetery and funeral merchandise and services. As at October 31, 2000, the Company operated 40 cemeteries, 27 crematoria, 90 funeral homes and had interests in another 5 funeral homes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial year of the Company consists of a 52 or 53-week period ending on the Sunday that falls on or immediately preceding October 31st. These consolidated financial statements include the accounts of the Company and all corporations that it controls. Investments in associated corporations, in which the company has significant influence, are accounted for by the equity method.

Recognition of Revenue

Cemetery sales

Revenue from cemetery sales is recorded at the date of the sales agreement. Contracts for pre-need cemetery merchandise and services are cancellable prior to delivery, estimates of the effect of which have been provided for in the accounts.

Funeral sales

Funds received through sales under pre-need funeral programs are either deposited in trust or with a third-party insurer under a group annuity program, at the direction of the customer and to the extent required by provincial legislation.

Revenue from sales of pre-need funeral services and merchandise, their related costs and accumulated interest under the trust or annuity programs are deferred and recorded as sales on the date of delivery.

The Company receives fees on the deposit of pre-need funeral funds under the trust program and the group annuity program. These fees are recorded in income, net of an allowance for those fees subject to refund, as received.

Investment income, gains and losses

Interest and dividend income on pre-need cemetery and care funds is recorded on the accrual basis. Gains and losses on the sale of investments held in pre-need cemetery funds are taken into income when realized.

Finance charges

Finance charges on the uncollected balance of instalment accounts receivable are collectible over the term of the sales agreement and are taken into income using the sum-of-the-digits method.

Valuation of assets and liabilities

Instalment accounts receivable

Instalment accounts receivable are recorded net of unearned finance charges relating thereto, a provision for cancellations and an allowance for doubtful accounts.

Inventories

Merchandise inventories are carried at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

Crypts and niches

Crypts and niches are carried at the lower of cost and net realizable value.

Cemetery land

Cemetery land is recorded at the lower of cost, which includes development costs, and net realizable value.

Pre-need funds and merchandise

Pre-need funds and merchandise, representing funds and merchandise set aside with trustees and suppliers to meet statutory or contractual obligations of pre-need and storage sales, are recorded at cost, less a provision for loss in respect of individual investments where market value is below cost and this decline appears to be other than temporary.

Fixed assets

Fixed assets are recorded at the lower of cost and net recoverable amount and are depreciated using the straight-line method over their estimated useful lives as follows:

Buildings	40 years
Equipment and furniture	10 years
Automotive equipment	7 to 10 years
Leasehold improvements	over term of lease
Other assets	3 to 25 years
Property under capital lease	40 years

Construction in progress is not depreciated until the fixed assets are put into operation.

Goodwill

Goodwill is recorded at cost and amortized on a straight-line basis over a period of forty years. The Company assesses the recoverability of the carrying value of goodwill each year on a location by location basis by reference to the underlying operating income of the location. A provision is recorded if the process indicates an impairment in the carrying value of goodwill that is other than temporary.

Income taxes

In the fourth quarter of 2000, the Company adopted the asset and liability method of accounting for income taxes as recommended in Section 3465 of the Handbook of the Canadian Institute of Chartered Accountants (see note 11), effective November 1, 1999. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities. Future income tax assets are also recognized for the benefit of losses available to be carried forward to future years for tax purposes if it is "more likely than not" that the benefit will be realized.

Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period of substantive enactment.

In 1999, the Company recorded income taxes using the deferral method.

Provision for future delivery

The provision for future delivery has three components: the estimated present value of the Company's obligation for the future delivery of such merchandise and services; merchandise sold to customers and stored by the Company until delivery; and the cost of merchandise to be purchased and stored when instalment contracts are fully paid.

The estimated present value component is based upon a calculation made by a firm of consulting actuaries. It requires the use of assumptions regarding rates of inflation, investment returns on pre-need funds and mortality rates, and considers the relevant provisions of the various cemetery sales agreements and the delivery arrangements made by the Company. For these agreements the average period from the balance sheet date to time of delivery is approximately 14 years (1999 – 10 years) with actuarial gains or losses due to current price adjustments and any changes in assumptions being recognized over the same period.

Provision for future delivery of merchandise sold under cemetery storage agreements is recorded at the cost of such merchandise at the date of the sales agreement. The merchandise is purchased upon payment in full of the sales agreement and is stored until delivery.

3. INVESTMENT INCOME

($000)	2000	1999
Pre-need cemetery funds	4,129	3,751
Care funds (note 6)	5,870	5,493
Pre-need funeral funds	2,502	1,813
Net gain on sale of investments	170	142
Share of net earnings of associated corporations	144	207
Other	196	107
	13,011	11,513

4. INSTALMENT ACCOUNTS RECEIVABLE

Instalment accounts receivable are collectible as follows:

($000)	2000	1999
1st year	35,701	33,869
2nd year	15,796	15,333
3rd year	8,595	7,813
4th year	4,302	3,857
5th year and thereafter	1,049	993
	65,443	61,865
Less: current portion	35,701	33,869
	29,742	27,996

The Company enters into sales contracts with numerous consumers, including groups, but no one consumer or group accounts for a significant concentration of credit risk. The carrying value of the instalment accounts receivable approximates its fair value.

5. PRE-NEED FUNDS AND MERCHANDISE

Pre-need funds consist of investments with fixed and floating interest rates and equity securities. Amounts classified as term deposits are invested over a period of 1 to 3 years (1999 – 1 to 3 years) at the prevailing rate of interest. The bonds have a weighted average maturity and interest rate of 5 years and 6.2% respectively (1999 – 6 years and 6.2%). Due to interest rate changes, the Company may realize gains and losses on the disposal of bonds, if sold before their maturity. Pre-need funds become available to the Company when merchandise and services have been delivered.

($000)	2000	1999
Term deposits	171,991	164,057
Bonds (quoted market value $77,466; 1999 - $71,376)	77,974	72,738
Equities (quoted market value $16,371; 1999 - $14,673)	16,584	15,486
Merchandise in storage	25,298	25,687
	291,847	277,968

6. CARE FUNDS

Funds collected and set aside with third party trustees for the care and maintenance of cemeteries total $99,451,000 (1999 - $92,332,000) at carrying value and $98,670,000 (1999 - $90,605,000) at quoted market value. These funds are not, and will not become, the property of the Company and accordingly are not recorded as assets in these financial statements. The amounts payable of $6,764,000 (1999 - $6,706,000) represent the uncollected portion of instalment accounts receivable which will become payable into trust upon collection of the receivable. The Company has the right to the income from these funds which is included in investment income.

The care funds are invested in accordance with the Company's investment guidelines which are established to comply with legislative requirements for such funds. The funds are generally invested in medium term government and corporate bonds which are held to maturity and earn income at fixed rates of return.

7. FIXED ASSETS

	Cost		Accumulated depreciation and amortization		Net book value	
($000)	2000	1999	2000	1999	2000	1999
Land	32,723	32,575	-	-	32,723	32,575
Buildings	103,550	97,188	29,900	28,550	73,650	68,638
Equipment and furniture	33,201	31,580	23,711	21,950	9,490	9,630
Automotive equipment	18,574	17,925	12,685	12,019	5,889	5,906
Leasehold improvements	5,414	5,330	4,954	4,772	460	558
Other assets	19,956	17,765	5,459	4,896	14,497	12,869
Construction in progress	993	6,060	-	-	993	6,060
Property under capital lease	1,999	1,999	93	48	1,906	1,951
	216,410	210,422	76,802	72,235	139,608	138,187

8. PROVISION FOR FUTURE DELIVERY

($000)	2000	1999
Merchandise and services sold on a pre-need basis	47,577	46,743
Merchandise sold on a storage basis:		
- purchased and stored until delivery	25,298	25,687
- to be purchased and stored in the future	15,395	14,450
	88,270	86,880

9. LONG-TERM DEBT

($000)	2000	1999
Bank term loans due 2005	94,573	96,795
Mortgages and notes payable due 2001 to 2004	2,629	4,548
Obligation under capital lease at 6.5%, due 2001 to 2008	1,970	1,979
	99,172	103,322
Less: current portion	1,424	2,428
	97,748	100,894

The weighted average interest rate on the mortgages and notes payable is 3.6% (1999 – 5.7%).

The Company has various bank lines of credit available, consisting of operating lines and revolving five year term loans subject to annual renewal aggregating $14 million (1999 - $14 million) and $125 million (1999 - $125 million) respectively. If not renewed, the term loans are automatically converted to a reducing term facility repayable in the following manner: (i) quarterly reductions equal to 1/40th of the outstanding amount of the facility commencing 15 months from the date of conversion; and (ii) repayment of the entire unpaid principal balance 4 years from the conversion date. The operating lines of credit are undrawn and are due on demand.

Security for the term loans consists of a floating charge and security interest over all assets of the Company except for fully or partially developed cemetery land, amounts included in accounts receivable which are due to trust funds, crypts and niches and pre-need funds and merchandise. Security for the operating lines consists of accounts receivable, instalment accounts receivable (net of amounts due to trust funds) and merchandise inventories and the operating lines rank senior to the term loans.

The bank loan agreements contain various restrictive provisions including: (i) maintenance of specific debt to cash flow and interest coverage ratios; (ii) limitation on the reduction of tangible net worth with respect to the payment of dividends and the acquisition by the Company of its own shares; (iii) restriction on the nature and amount of specific guarantees and additional debt; and (iv) consent for the disposition of the Company's real property.

The fair value of the Company's bank term loans approximates the carrying value given their floating rate nature. The carrying value of the remainder of the long-term debt is $4,599,000 (1999 - $6,527,000) and the estimated fair value is $4,401,000 (1999 - $6,347,000).

The Company's use of derivative financial instruments is limited to two (1999 – two) interest rate swaps with a total notional amount of $38.2 million (1999 - $43.2 million) whereby the Company has fixed that portion of its term loan financing at interest rates ranging from 6.0% to 6.7%. The remainder of the term loans are subject to floating interest rates based on Bankers' Acceptances. The swaps are amortized quarterly on a straight-line basis and will be fully amortized in 2008.

The fair value of the interest rate swaps is estimated as the discounted unrealized gain or loss calculated based on the market price at October 31, 2000, which generally reflects the estimated amount that the Company would receive or pay to terminate the contracts at the balance sheet date. The estimated fair value of the interest rate swaps is a gain of $274,000 (1999 – gain of $439,000). Losses due to non-performance by the counter-party are not anticipated due to their high credit standing.

Interest expense on long-term debt for 2000 and 1999 amounted to $6,256,000 (including net swap costs of $187,000) and $5,987,000 (including net swap costs of $422,000) respectively.

The amount of principal payable over each of the next five years and thereafter is as follows:

	($000)
2001	1,424
2002	5,299
2003	10,019
2004	9,573
2005	58,954
2006 and thereafter	13,903
	99,172

10. SHARE CAPITAL

(a) Authorized:

Unlimited number of Preferred Shares
Unlimited number of Class A Voting Shares
Unlimited number of Class B Non-Voting Shares

(b) Issued:

($000)	2000	1999
2,525,497 Class A Shares	1,734	1,734
8,069,746 Class B Shares (1999 – 8,063,746)	70,765	70,720
10,595,243 (1999 – 10,589,243)	72,499	72,454

The Class A and Class B shares have identical rights and privileges, except that the Class A shares are voting. In certain circumstances, if an offer is made by the Company or a third party to purchase Class A shares from each holder in Ontario, each Class B share is convertible into one Class A share.

(c) **Share purchase options:**

The Company has the following options outstanding for the purchase of Class B shares:

Number of Shares	Exercise Price	Expiry	Exercise Date
112,300	$19.25	June 2, 2005	exercisable currently
45,000	$29.36	January 29, 2007	15,000 exercisable currently 15,000 exercisable January 29, 2001 and 15,000 exercisable January 29, 2002
133,300	$23.50	December 17, 2008	20% on the first anniversary (December 17, 1998) and 20% in each subsequent year on the anniversary date until the fifth anniversary

During the year, certain options were exercised and 6,000 (1999 – nil) Class B shares were issued for cash proceeds of $45,000 (1999 - nil). During the year, 1,200 (1999 – 4,500) options were cancelled.

11. INCOME TAXES

In the fourth quarter of 2000, the Company early adopted the recommendations of the Canadian Institute of Chartered Accountants for the accounting for income taxes. The recommendations were applied retroactively without restatement of prior period financial statements. The cumulative effect at October 31, 1999 of the adoption of the new accounting standard resulted in an increase in future income taxes (previously deferred income taxes) of $6.1 million and a charge to retained earnings of the same amount as at November 1, 1999.

The Company's income tax expense for the years ended October 31 consists of the following:

($000)	2000	1999
Current tax expense	7,910	8,670
Future income tax expense (benefit) relating to the origination and reversal of temporary differences	3,363	2,210
Future income tax expense (benefit) resulting from reduction in tax rate	(2,183)	-
Income tax expense	9,090	10,880

The reconciliation of the Company's effective income tax rate follows:

	2000	1999
	%	%
Combined basic federal and provincial income tax rate	44.8	45.1
Increase (decrease) in the basic tax rate resulting from:		
Effect on opening future taxes of reduction in tax rate	(9.7)	-
Non-deductible interest and penalties on partial settlement of prior years' income taxes	-	10.8
Impaired assets	-	9.9
Non-deductible amortization of excess of acquisition cost over book value	3.5	5.9
Large corporations tax	2.7	3.4
Other items	(0.9)	(1.0)
Effective income tax rate	40.4	74.1

The significant components of future income taxes are deductible/taxable temporary differences amounting to approximately $48.6 million arising from: actuarial provision which is not recognized for tax purposes until the actual merchandise and services have been delivered; pre-need funeral trust income whereby certain provincial jurisdictions permit the withdrawal of earned income prior to the delivery of the funeral service; reserves claimed for amounts received or to be received for the future delivery of certain cemetery merchandise and services; and the excess of share acquisition costs over book value.

In 1999, the Company negotiated a settlement with respect to reassessments by various income tax authorities regarding reserves claimed in previous years for amounts received for the future delivery of certain merchandise. The settlement resulted in a reduction of $12.9 million in income taxes on deposit, a reduction in deferred taxes of $5.1 million, the recognition of income taxes receivable of $6.1 million and a charge of $1.7 million to the income statement, representing interest and penalties net of interest income. In 2000, $4.0 million of the $6.1 million of the income tax receivable was collected and $0.5 million of income taxes on deposit were offset to future income taxes in partial settlement of matters with certain provincial tax authorities.

The $6.3 million of income taxes on deposit relates to a reassessment by various income tax authorities with respect to reserves claimed for the sale of interment rights. The Company is contesting these reassessments and previously paid an estimate of the taxes and interest relating thereto to reduce its exposure to non-deductible interest and penalties in the event it is unsuccessful. The outcome of this dispute is not presently determinable.

Should it be completely unsuccessful in defending its position on interment rights, the Company would record $3.1 million as a charge to earnings, relating primarily to the accumulated interest up to the date the deposits were made, a $3.2 million reduction of future income taxes and a $6.3 million reduction of income taxes on deposit.

12. OPERATING LEASE COMMITMENTS

The Company is committed to payments of approximately $5,074,000 under operating leases for premises and equipment. The minimum annual payments over the next five years are as follows:

	($000)
2001	2,185
2002	1,457
2003	763
2004	488
2005	181
	5,074

13. EARNINGS PER SHARE

Earnings per share has been calculated using the weighted average number of shares outstanding during the year of 10,594,046 (1999 – 10,589,243).

Fully diluted earnings per share do not differ materially from basic earnings per share.

Earnings per share in 2000, excluding the after-tax effect of other income (expenses) and the impact of the change in the tax rate under the new accounting standard for income taxes, was $1.04 (1999 - $1.08).

14. NET CHANGE IN OTHER OPERATING BALANCE SHEET ITEMS

($000)	2000	1999
(Increase) decrease in assets:		
Income taxes receivable	3,966	(6,100)
Merchandise inventories	821	(320)
Instalment accounts receivable	(4,725)	(4,068)
Income taxes on deposit	461	12,900
Crypts and niches	3,006	551
Pre-need funds and merchandise	(20,337)	(19,036)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(2,032)	138
Income taxes payable	(1,820)	1,999
Deferred revenue	9,296	11,172
Provision for future delivery	3,082	1,645
Other changes	(28)	(218)
	(8,310)	(1,337)

15. SEGMENT DISCLOSURE

The Company has three reportable segments: cemetery, funeral and corporate. The cemetery segment sells cemetery merchandise and services. The funeral segment sells funeral merchandise and services. The corporate segment's responsibilities include strategy development, human resource management, capital investment decisions and performance monitoring of the cemetery and funeral operations.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on earnings from operations.

The Company's reportable segments are strategic business units that offer different products and services. The nature of these products and services overlap in some instances in the cemetery and funeral segments. However, these segments are managed separately and have different regulatory requirements.

All of the Company's revenues are derived in Canada and all of the Company's capital assets and goodwill are located in Canada.

Industry segments *($000)*

	Cemetery		Funeral		Corporate		Consolidated	
	2000	1999	2000	1999	2000	1999	2000	1999
Sales: Pre-need	52,685	52,232	-	-	-	-	52,685	52,232
At-need	27,376	27,372	74,932	73,499	-	-	102,308	100,871
Other	-	-	-	-	604	576	604	576
	80,061	79,604	74,932	73,499	604	576	155,597	153,679
Investment income	10,169	9,392	2,646	2,019	196	102	13,011	11,513
	90,230	88,996	77,578	75,518	800	678	168,608	165,192
Interest expense	-	-	-	-	6,256	5,987	6,256	5,987
Depreciation and amortization	2,166	1,986	5,130	4,894	860	814	8,156	7,694
Earnings (loss) from operations before other income (expenses)	17,240	17,770	21,581	21,000	(10,702)	(10,240)	28,119	28,530
Other income (expenses)	59	(4,076)	99	(2,149)	480	(1,630)	638	(7,855)
Earnings from operations	17,299	13,694	21,680	18,851	(10,222)	(11,870)	28,757	20,675
Identifiable assets	264,799	256,236	370,347	362,580	16,460	19,045	651,606	637,861
Capital expenditures	2,760	7,470	6,421	19,451	788	975	9,969	27,896

ACQUISITIONS, DISPOSITIONS AND ASSET IMPAIRMENT

In 2000, the Company did not make any funeral home acquisitions (1999 - 4 funeral homes). The acquisitions in 1999 were accounted for by the purchase method under which the results of the operations since the date of acquisition are included in these financial statements. In 1999, the acquisitions resulted in the following: assets acquired of $9.7 million; liabilities assumed of $5.0 million; and goodwill arising of $4.8 million. Total consideration was composed of $8.4 million of cash and $1.1 million of notes payable.

In 2000, the Company disposed of three funeral homes and four cemeteries for an amount that approximated the provision for loss recorded in 1999 of $3.6 million.

In 1999, the Company recorded a loss of $1.6 million on the sale of fixed assets, relating primarily to the disposition of three funeral homes and one cemetery. In addition, the Company identified impairment in the carrying value of certain assets and recorded a provision of $0.9 million.

Unaudited Quarterly Financial Information

($000)	2000 (52 weeks) Fiscal quarters ended Jan-31	Apr-30	Jul-31	Oct-31	Year Ended Oct-31
Sales	37,972	38,995	39,073	39,557	155,597
Investment income	3,164	3,066	3,122	3,659	13,011
Total revenue	41,136	42,061	42,195	43,216	168,608
Expenses	33,541	33,854	36,308	36,786	140,489
Earnings from operations before other income (expenses)	7,595	8,207	5,887	6,430	28,119
Other income (expenses)	-	-	50	588	638
Interest expense	1,528	1,573	1,575	1,580	6,256
Earnings before income taxes	6,067	6,634	4,362	5,438	22,501
Income taxes	3,052	3,348	2,185	505	9,090
Net earnings for the period	3,015	3,286	2,177	4,933	13,411
Earnings per share					
Class A Voting	$ 0.28	$ 0.31	$ 0.21	$ 0.47	$ 1.27
Class B Non-Voting	$ 0.28	$ 0.31	$ 0.21	$ 0.47	$ 1.27
Earnings per share excluding other income (expenses) and the impact of the change in the tax rate under the new accounting standard for income taxes					
Class A Voting	$ 0.28	$ 0.31	$ 0.21	$ 0.24	$ 1.04
Class B Non-Voting	$ 0.28	$ 0.31	$ 0.21	$ 0.24	$ 1.04

($000)	1999 (53 weeks) Fiscal quarters ended Jan-31	Apr-30	Jul-31	Oct-31	Year Ended Oct-31
Sales	35,837	39,704	37,009	41,129	153,679
Investment income	2,289	2,233	2,319	4,672	11,513
Total revenue	38,126	41,937	39,328	45,801	165,192
Expenses	31,712	32,751	34,048	38,151	136,662
Earnings from operations before other income (expenses)	6,414	9,186	5,280	7,650	28,530
Other income (expenses)	229	-	31	(8,115)	(7,855)
Interest expense	1,431	1,472	1,469	1,615	5,987
Earnings before income taxes	5,212	7,714	3,842	(2,080)	14,688
Income taxes	2,590	3,860	1,950	2,480	10,880
Net earnings for the period	2,622	3,854	1,892	(4,560)	3,808
Earnings per share					
Class A Voting	$ 0.25	$ 0.36	$ 0.18	$ (0.43)	$ 0.36
Class B Non-Voting	$ 0.25	$ 0.36	$ 0.18	$ (0.43)	$ 0.36
Earnings per share excluding other income (expenses)					
Class A Voting	$ 0.25	$ 0.36	$ 0.18	$ 0.29	$ 1.08
Class B Non-Voting	$ 0.25	$ 0.36	$ 0.18	$ 0.29	$ 1.08

Five Year Statistical Review

YEARS ENDED OCTOBER 31 *($000)*	2000	1999	1998	1997	1996
	(52 weeks)	*(53 weeks)*	*(52 weeks)*	*(52 weeks)*	*(52 weeks)*
EARNINGS					
Revenue	168,608	165,192	151,569	144,293	129,978
Earnings from operations before other income (expenses)	28,119	28,530	27,423	23,836	20,709
Other income (expenses)	638	(7,855)	346	-	-
Earnings before income taxes	22,501	14,688	24,160	21,543	18,473
Net earnings	13,411[1]	3,808[2]	12,570	11,503	10,173
CASH FLOWS					
Provided by (used for)					
Operating activities	15,777	13,141	14,883	6,694[3]	4,343[3]
Investing activities	(7,665)	(25,471)	(50,376)	(30,059)	(27,680)
Financing activities	(4,847)	14,504	32,529	22,139	7,753
FINANCIAL POSITION					
Working capital	36,498	30,045	13,481	21,356	20,600
Pre-need funds and merchandise	291,847	277,968	254,928	214,923	190,625
Total assets	651,606	637,861	602,166	503,939	439,261
Long-term debt	99,172	103,322	86,991	50,268	30,554
Shareholders' equity	181,227	174,664	171,598	159,539	145,453
Debt to equity ratio	0.55:1	0.59:1	0.51:1	0.32:1	0.21:1
PER SHARE DATA					
Earnings *($ per share)*					
Class A Voting	1.27[1]	0.36[2]	1.19	1.09	0.99
Class B Non-Voting	1.27[1]	0.36[2]	1.19	1.09	0.99
Cash flow from operating activities *($ per share)*	1.49	1.24	1.41	0.64[3]	0.42[3]
Weighted average number of shares outstanding *(000)*	10,594	10,589	10,585	10,515	10,290
MAJOR RESOURCES					
Cemeteries	40	44	44	44	44
Crematoria	27	26	26	25	24
Funeral homes[4]	95	96	94	84	77
Care funds *($000)*	99,451	92,332	85,443	78,211	70,972

(1) Net earnings in 2000, excluding the after-tax effect of other income (expenses) and the impact of the change in the tax rate under the new accounting standard for income taxes, was $11.0 million, or $1.04 earnings per share.

(2) Net earnings in 1999, excluding the after-tax effect of other income (expenses) was $11.5 million, or $1.08 earnings per share.

(3) Cash flow from operating activities in 1997 was net of a $6.0 million payment on deposit of prior years' income taxes and interest under possible reassessment, amounting to $0.57 per share. The 1996 figure was net of a $10.6 million similar payment amounting to $1.03 per share.

(4) Arbor wholly owns 90 of the 95 funeral homes and has interests ranging from 40% to 48% in the remainder.

Company Information

DIRECTORS

Daniel J. Scanlan,
Chairman of Arbor Memorial Services Inc., Toronto

Richard D. Innes,
President and Chief Executive Officer of Arbor Memorial Services Inc., Toronto

Filomena Frisina,
Corporate Secretary, Partner with Gowling Lafleur Henderson LLP, Toronto

Peter A.W. Green,
Corporate Director and Chairman of The Frog Hollow Group Inc., Toronto

Joseph M. Messmer,
Corporate Director, Toronto

Joseph M. Scanlan,
Vice-Chairman and Senior Vice-President, Sales of Arbor Memorial Services Inc., Toronto

Paul F. Scanlan,
Regional Sales Director of Arbor Memorial Services Inc., Toronto

Lord Shaughnessy,
Corporate Director, London, England

Robert D. Watson,
Partner with Watson Goepel Maledy, Vancouver

Philip L. Wilson,
Corporate Director, Toronto

OFFICERS AND CORPORATE MANAGEMENT

Daniel J. Scanlan,
Chairman

Richard D. Innes,
President and Chief Executive Officer

Gary R. Carmichael,
Vice-President, Government and Corporate Affairs

Mike Ayres,
Director of Information Services

Filomena Frisina,
Corporate Secretary

Gillian Mossington,
Assistant Secretary

Sales/Marketing

Joseph M. Scanlan,
Vice-Chairman and Senior Vice-President, Sales

Michael J. Scanlan,
Vice-President, Marketing

Monica M. Flanagan,
Director of Administrative Services

Funeral Service

John S. Earle,
Senior Vice-President, Funeral Services

Jeffrey S. Scott,
President, Trillium Funeral Service Corporation

John S. Doney,
Corporate Development

Human Resources

Michelle A. Gibbons,
Vice-President, Human Resources

Cemetery Operations

Gary D. Rogerson,
Vice-President, Operations

Construction & Development

Stephen J. Rupert,
Vice-President, Construction and Development

Finance/Trust Administration

Brian D. Snowdon,
Vice-President and Chief Financial Officer

Pamela F. Collie,
Director of Trust Accounting

Laurel L. Wright,
Controller

CEMETERY SALES

Robert W. Lang,
Director of Sales, Western Canada

Regional Management

J. Mark Agate,
South Western Ontario

P. Gary Boyce,
Western Canada

Doug Oliver,
Atlantic Canada

Howard Hoidas,
Quebec

Charles Duchesnay,
Southeast Central Ontario

Brian G. MacMillan,
South Central Ontario

Leonard Marceau,
South Eastern Ontario

Paul F. Scanlan,
Southern Ontario

CEMETERY OPERATIONS

Regional Management

William E. Grady,
Eastern Canada

Kenneth Gurney,
Niagara and Thunder Bay

Rodger W. Halden,
Western Ontario

P. Bradley Hunter,
Eastern Ontario

James Risbey,
Alberta and British Columbia

Bruce Slack,
Central/Western Ontario

Terry Bokshowan,
Manitoba and Saskatchewan

FUNERAL OPERATIONS

Regional Management

Terry A. Eccles,
South Western Ontario

David J. Scanlan,
Western Canada

Douglas A. MacDonald,
Atlantic Canada

Denis Marcoux,
Quebec and Acadia

Jerry Roberts,
Central and Eastern Ontario

Valerie Scott,
Funeral Planning, Ontario

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AUDITORS

Deloitte & Touche LLP

PRINCIPAL BANKERS

The Toronto-Dominion Bank

Bank of Montreal

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company of Canada

PRINCIPAL TRUSTEES OF FUNDS

TD Trust Company

Royal Trust Corporation of Canada

The Bank of Nova Scotia Trust Company

STOCK INFORMATION

The Company's shares have been listed on the Toronto Stock Exchange since 1973. Information concerning its shares follows:

Class of Shares	A(Voting)	B(Non-Voting)
Stock Symbol	ABO.A	ABO.B
Cusip#	038916-10-2	038916-20-1
Market Price (at October 31):		
2000	$5.55	$7.00
1999	12.00	12.10
1998	18.00	18.50
1997	25.50	25.50
1996	23.25	23.00

ANNUAL MEETING

The annual meeting of Arbor Memorial Services Inc. will be held in the Brulé Room, The Old Mill, 21 Old Mill Road, Toronto, Ontario, on Thursday February 22, 2001 at 10:00 a.m. (Toronto time).